

FDIC State Profile

Winter 2004

Alabama

Alabama experienced moderate economic growth in late 2004.

- Economic conditions in Alabama improved in late 2004, yet overall job growth remains sluggish (See Chart 1). Although service-providing sectors are driving the state's economy, long term declines in the manufacturing industry have depressed economic recovery.
- Firms that manufacture apparel, textiles, and paper products are rapidly leaving the state for the cost benefits of off-shore production. Conversely, the production of automobiles and trucks, with higher transport costs and skill requirements, is driving foreign direct investment in the state. Automobile production facilities have catalyzed growth in the **Madison** and **Lincoln** areas, and to a lesser extent, the **Tuscaloosa** metropolitan area.
- The construction of a Hyundai manufacturing plant in **Montgomery** has spurred the development of secondary parts manufacturers west of the county. Counties along the east-west I-20 corridor, the most economically depressed region of the state, should soon benefit from these investments.

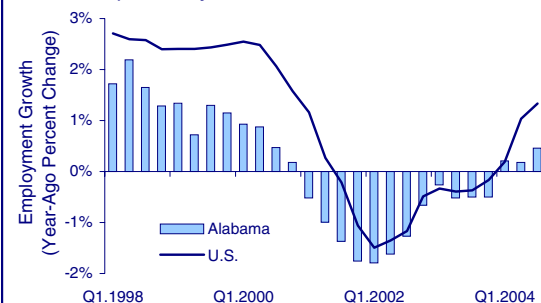
Jobless rates have improved across the state.

- While Alabama's jobless rates rose higher than national levels immediately after the recession, current trends indicate that the state's labor market is tracking national labor market improvement. The number of counties experiencing an improvement in jobless rates from year-ago levels declined from the previous quarter; still, more than half of the county labor markets continue to improve. Despite these improvements, counties in the southwest region of the state continue to experience higher rates of unemployment (See Map 1).

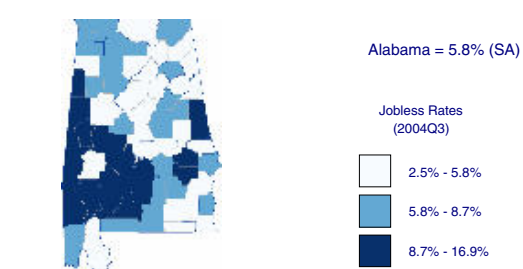
Income growth remains strong, yet high rates of bankruptcy threaten consumer quality.

- Overall statewide per capita income growth slowed in the previous quarter but remains higher than the national average. Continued growth may be threatened by continued reductions in manufacturing hours, as average weekly earnings in this sector contracted in the previous quarter.

Chart 1: Employment Growth in Alabama Has Been Comparatively Modest

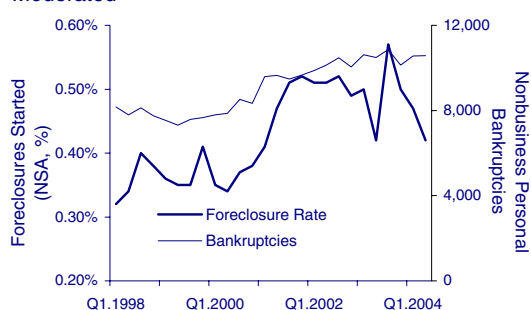


Map 1: Alabama Jobless Rates Remain High in Several Counties



Note: County data not seasonally adjusted.
Source: Bureau of Labor Statistics/Haver Analytics

Chart 2: Foreclosure Rates in Alabama Have Moderated



State Profile

- Foreclosure rates have shown signs of moderating. Yet, bankruptcies and foreclosure rates were ranked with some of the highest in the nation at second and seventeenth, respectively (See Chart 2).
- Individuals continued to leverage their homes with cash out refinancing. At the end of third quarter 2004, home equity loans (HEL) grew 24 percent over the 12-month period to 2.6 percent of assets, up from 2.2 percent a year earlier. While still a relatively small asset class, the threat of rising interest rates and continued weak wage and job growth in 2005 may lead to higher debt service burdens, which may place further stress on the state's consumers.

Residential real estate markets show steady growth.

- Steady growth of new home construction continued last quarter with permit issuance levels remaining at historic levels. While all major metropolitan areas in the state exceeded year-ago levels, home sales in the Mobile and **Baldwin** areas have experienced phenomenal growth, in part because of a continued influx of seniors seeking retirement communities. Much of this growth is occurring in the southern areas of the county, especially near the Intracoastal Waterway.
- At community banks¹ in Alabama, construction and development (C&D) lending, which is primarily for residential real estate construction, grew 34 percent during the 12-month period ending September 30, 2004. The **Birmingham** metropolitan area had one of the highest C&D exposure levels nationwide with 147 percent of capital tied up in this lending segment, which ranked 22nd nationally.

The state has quickly recovered from the effects of Hurricane Ivan.

- Hurricane Ivan caused building damage throughout the **Mobile** metropolitan area while the state's cotton and peanut crops saw significant losses. The ultimate economic impact of the hurricane in urban areas has been mitigated through growth in reconstruction industries. Yet, scattered shortages of supplies and labor, because of the reconstruction efforts, may temporarily restrict new home construction.

Alabama's community banks continue to experience solid earnings performance as profitability at larger banks lags.

- Earnings growth has continued at Alabama community banks. During the 12 months ending September 30, 2004, net income rose 21 percent on a merger-adjusted basis to \$196 million, a record high. Nevertheless, median

profitability measures were mixed as return on assets (ROA) was steady at 1.18 percent, while net interest margins (NIMs) improved 5 basis points to 4.20 percent (See Chart 3). A greater drop in funding costs relative to asset yields led to the increase in margins.

- In contrast with Alabama's smaller banks, profitability measures at the state's larger institutions² weakened during third quarter 2004. Both the median NIM and ROA ratios declined as gross revenues fell over the 12-month period.
- Despite a reduction in main offices from 1994 to 2004, branching activity in Alabama has closely tracked the pace of the nation. The majority of branching activity has taken place in the major markets as Tuscaloosa, Montgomery, and Birmingham during the past decade (See Chart 4).

Chart 3: Improving Margins Helped Boost Return on Assets at Alabama Community Banks

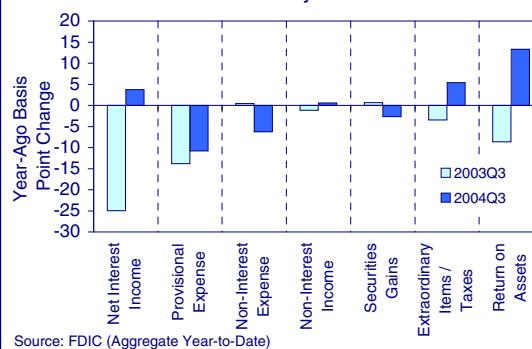
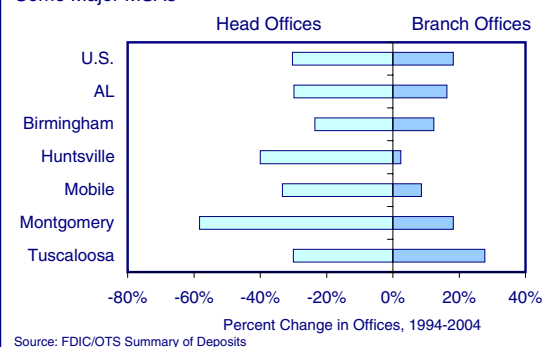


Chart 4: Branching Activity Has Been Widespread Across Some Major MSAs



¹Community banks and thrifts have assets less than \$1 billion dollars and exclude de novos and specialty institutions. This group of banks has been adjusted for mergers.

²Larger banks have assets greater than \$1 billion and exclude specialty institutions.

Alabama at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	164	162	164	170	170
Total Assets (in thousands)	227,288,788	211,837,682	199,833,704	189,073,506	181,638,847
New Institutions (# < 3 years)	9	5	8	8	8
New Institutions (# < 9 years)	19	16	14	11	11
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.68	9.78	9.51	9.46	9.68
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	2.19%	2.61%	2.44%	3.01%	2.56%
Past-Due and Nonaccrual >= 5%	25	33	24	39	29
ALLL/Total Loans (median %)	1.34%	1.36%	1.33%	1.25%	1.25%
ALLL/Noncurrent Loans (median multiple)	1.89	1.33	1.54	1.31	1.48
Net Loan Losses/Loans (aggregate)	0.33%	0.44%	0.47%	0.47%	0.33%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	11	11	10	12	11
Percent Unprofitable	6.71%	6.79%	6.10%	7.06%	6.47%
Return on Assets (median %)	1.10	1.15	1.17	1.04	1.15
25th Percentile	0.73	0.73	0.84	0.69	0.81
Net Interest Margin (median %)	4.12%	4.03%	4.27%	4.01%	4.21%
Yield on Earning Assets (median)	5.67%	5.94%	6.86%	8.10%	8.40%
Cost of Funding Earning Assets (median)	1.60%	1.93%	2.62%	4.14%	4.15%
Provisions to Avg. Assets (median)	0.19%	0.23%	0.24%	0.22%	0.18%
Noninterest Income to Avg. Assets (median)	0.74%	0.75%	0.71%	0.70%	0.69%
Overhead to Avg. Assets (median)	2.83%	2.74%	2.77%	2.79%	2.76%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	74.64%	72.69%	74.96%	74.62%	72.63%
Loans to Assets (median %)	59.96%	60.38%	62.41%	62.33%	61.13%
Brokered Deposits (# of Institutions)	52	48	43	37	40
Bro. Deps./Assets (median for above inst.)	5.19%	3.49%	3.51%	2.71%	2.65%
Noncore Funding to Assets (median)	25.84%	24.44%	24.28%	24.14%	23.61%
Core Funding to Assets (median)	61.98%	63.89%	63.42%	64.41%	64.47%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	105	105	105	108	109
National	23	21	21	23	24
State Member	25	25	26	27	25
S&L	4	4	5	5	5
Savings Bank	7	7	7	7	7
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	101	13,888,830	61.59%	6.11%	
Birmingham AL	22	186,926,929	13.41%	82.24%	
Mobile AL	8	1,477,626	4.88%	0.65%	
Dothan AL	7	987,457	4.27%	0.43%	
Montgomery AL	4	18,801,093	2.44%	8.27%	
Florence AL	4	813,782	2.44%	0.36%	
Decatur AL	4	1,787,322	2.44%	0.79%	
Tuscaloosa AL	3	539,940	1.83%	0.24%	
Huntsville AL	3	601,300	1.83%	0.26%	
Anniston AL	3	237,878	1.83%	0.10%	
Gadsden AL	2	296,497	1.22%	0.13%	
Columbus GA-AL	2	334,192	1.22%	0.15%	
Auburn-Opelika AL	1	595,942	0.61%	0.26%	